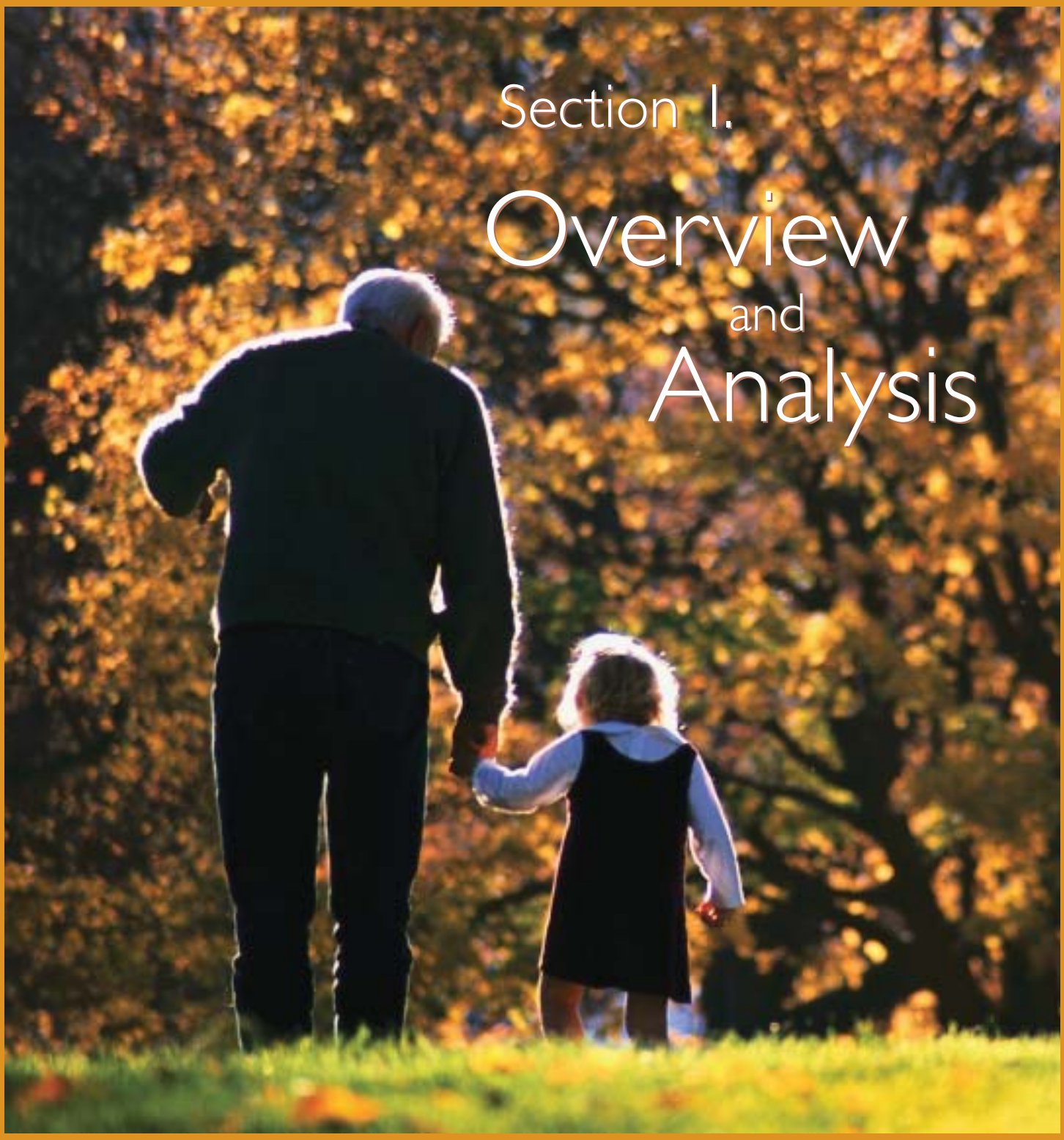


Section I.
Overview and Analysis

CONTENTS

SECTION I.

Overview and Analysis

The U.S. Environmental Protection Agency (EPA) has a clear mission: to protect human health and the environment. Under this mission, the Agency is responsible for ensuring that the nation's air is safe to breathe, the water is clean and safe to drink, and the land is restored and protected. In FY 2000, under the Government Performance and Results Act (GPRA), EPA issued its second *Strategic Plan*, with 10 long-term strategic goals identifying the environmental results that the Agency would work to achieve and reflecting the sound financial and management practices it would employ. Since then, the Agency has been working to sharpen its focus on achieving measurable environmental results, and has revised its *Strategic Plan*, as well as EPA's supporting financial architecture.

With the release of EPA's revised 2003 *Strategic Plan* in September 2003, the Agency moved from 10 strategic goals—including both outcome-oriented goals, such as Clean Air, and functional or support goals, such as Effective Management—to five goals centered on environmental and human health results. By directing attention to fewer outcome-oriented goals, EPA hopes to develop effective strategies that achieve better environmental results and use taxpayer dollars more wisely and effectively. EPA regional offices, for example, working with their state and tribal partners, will be better able to conduct regional strategic planning activities and address regional or geographic priorities under the Agency's five national goals.[1]

With this Annual Report, the Agency begins framing its performance and results under its 2003 *Strategic Plan*. Discussion of FY 2003 performance in terms of the more outcome-oriented, five-goal structure enables the Agency to present a stronger focus on achieving mission results of protecting human health and the environment. EPA has cross walked its FY 2003 Annual Performance Goals, established in the *FY 2003 Annual Plan* under the 10-goal architecture of EPA's *2000 Strategic Plan*, to the new five-goal framework of the 2003 *Strategic Plan*. The Agency also included a sixth chapter to discuss annual results for supporting programs.

The Agency is submitting this year's report on an accelerated schedule of November 21, 2003, sooner than the statutory deadline of January 31, 2004. Operating under this new schedule will position the Agency to meet the statutory deadline of November 15, 2004, for FY 2004 reporting. A significant implication of the accelerated schedule is that final performance data for several key programs were not available in time for this report's release. As allowed by GPRA, performance data not available at the time of this document's publication will be reported in EPA's FY 2004 and future *Annual Reports*.

This *Annual Report* provides an assessment of the Agency's environmental, programmatic, and financial performance. Building on the previous year's results, EPA made progress during FY 2003 toward protecting human health and the environment by using a mix of

tools and approaches, and by working closely with its valued partners whose contributions were critical to many of the results achieved.

This report contains three sections. Section I, Overview and Analysis, provides a broad picture of EPA's environmental and fiscal performance during FY 2003.* It also summarizes EPA's accomplishments in financial management and in addressing programmatic management challenges and audit management activities for FY 2003, as well as progress toward enhancing the Agency's capacity for achieving results. Section II, Performance Results, describes in greater detail the results that EPA—working with its federal, state, tribal, and local government partners—achieved under each of the Agency's five new goals. It also presents progress toward meeting the Annual Performance Goals established in EPA's *FY 2003 Annual Plan*. Section III, FY 2003 Audited Financial Statements, summarizes EPA's financial activities and achievements and presents the Agency's annual financial statements, which have been independently audited by EPA's Inspector General.

EPA Changed Its Strategic Goals in FY 2003

2000 Strategic Plan

1. Clean Air
2. Clean & Safe Water
3. Safe Food
4. Preventing Pollution
5. Better Waste Management
6. Reduced Global & Cross Border Environmental Risks
7. Quality Environmental Information
8. Sound Science
9. A Credible Deterrent to Pollution
10. Effective Management

2003 Strategic Plan

1. Clean Air & Global Climate Change
2. Clean & Safe Water
3. Land Preservation & Restoration
4. Healthy Communities & Ecosystems
5. Compliance & Environmental Stewardship

* The Overview and Analysis also addresses requirements for a "Management's Discussion and Analysis" of the annual financial statements included in EPA's *FY2003 Annual Report*. Because the *FY2003 Annual Report* consolidates a number of specific reports, some required components of the "Management's Discussion and Analysis" are presented in greater detail elsewhere in this report. In particular, EPA's mission statement and organization chart appear at the front of the report. For a discussion of the Agency's performance goals and results, refer to Section II. Financial statements, along with a discussion of systems, controls, and legal compliance, are presented in Section III. Environmental Accomplishments

Performance Results

Building on FY 2002 accomplishments, EPA and its partners made significant progress during FY 2003 toward protecting the nation's air, water, and land. This section describes key environmental and program results, summarizes the Agency's performance in meeting its FY 2003 annual performance goals, and discusses some of EPA's current performance issues and concerns.

Environmental Accomplishments

Clean Air and Global Climate Change. In FY 2003, an additional 6.8 million people in the United States are now breathing healthier air. Work by EPA and its partners through FY 2003 led to decreased emissions of the six principal air pollutants for which EPA has established National Ambient Air Quality Standards under the Clean Air Act: carbon

EPA's New FY 2003 Emission Standards for Non-road Diesel Engines Will:

Annually Reduce:

- 825,000 tons of nitrogen dioxide.
- 125,00 tons of particulate matter.

Annually Prevent More Than:

- 9,600 premature deaths.
- 8,300 hospitalizations.
- 16,000 heart attacks.
- 5,700 children's asthma-related emergency room visits.
- 260,000 respiratory problems in children.
- Nearly a million work days lost due to illness.

monoxide, ground-level ozone, particulate matter, nitrogen dioxide, sulfur dioxide, and lead. For example, 92 percent of the geographic areas in the country that were not meeting the clean air standard for carbon monoxide are now measuring clean air. The same is true for 49 percent of those areas that were not previously meeting the 1-hour ozone standard and 81 percent of the areas that were not attaining the particulate matter (PM_{10}) standard.

In FY 2003, EPA proposed new emission standards for non-road diesel engines used in construction, agricultural, and industrial operations. This proposal will reduce emission levels for particulate matter and nitrogen oxide by more than 90 percent, and eliminate 99 percent of the sulfur content in fuel used by these engines, resulting in significant health benefits.[2]

In addition to the six common air pollutants, the Clean Air Act identifies 188 toxic air pollutants to be regulated. In FY 2003, EPA issued rules regulating 29 major sources of toxic air pollutants. The Agency estimates that when fully implemented, these rules will prevent more than 140,000 tons of toxic air emissions each year.

Clean and Safe Water. In FY 2003, the nation maintained the quality of its drinking water, sustaining gains made in the past decade. EPA estimates that as a result of its support for state and tribal drinking water programs in FY 2003, the percentage of the population served by community water systems receiving drinking water that meets existing health-based standards remained high. The nation also increased its knowledge of the quality of fresh waters in new biennial reporting from states and tribes.

During FY 2003, for the first time, 13 states were able to identify specific water where all fish are safe to eat. This was due in part to increased monitoring of the health of the nation's surface waters. In calendar year 2002, 15 percent of river miles (representing 544,036 miles) and 33 percent of lake acres (representing 13,413,763 acres) were under one or more advisories not only for risks to the general population, but also to recreational and subsistence fishers, and sensitive sub-populations such as pregnant women, nursing mothers, and children. State and local agencies also reported that beaches were open 95 percent of the beach days (the number of days in a specific beach's recre ational season) during calendar year 2002.

Land Preservation and Restoration. EPA continues to make substantial progress toward cleaning up contaminated lands and safely managing hazardous waste. In FY 2003, the Agency achieved its performance goal of completing the cleanup ("construction completes") of and reducing the risks posed to human health at 40 sites on the Superfund National Priorities List (NPL). Since the program's inception, the Agency has completed all remedial cleanup construction activities at 886 Superfund sites, or 58 percent of the sites on the NPL. This work, and that at non-NPL sites, has included providing alternative drinking water supplies to nearly 613,000 people to protect them from contaminated groundwater and surface water, and relocating more than 33,000 people in instances where contamination posed the most severe immediate risk.

In FY 2003, EPA met its targets of 197 and 158 for achieving intermediate environmental indicators for the Resource Conservation and Recovery Act's (RCRA's) Corrective Action Program. Adequate controls were put in place to prevent human exposures to hazardous waste at an additional 230 facilities, and migration of contaminated groundwater is under control at 175 facilities. As a result, actual or potential threats from releases of hazardous wastes have been reduced at nearly 73 percent of the 1,174 high priority RCRA corrective action facilities and migration of contaminated groundwater has been controlled at 61 percent of those facilities.

The Agency surpassed its annual performance goal for the number of hazardous waste management facilities operating with approved permits. These permits require that controls be put in place to prevent dangerous releases to air, soil, and groundwater at facilities. Based on preliminary results for FY 2003, 83.2 percent of the nation's management facilities have approved controls in place, or 6 percent more facilities than the Agency's FY 2003 annual goal.

Healthy Communities and Ecosystems.

Throughout FY 2003, EPA achieved significant results toward preventing or reducing risks in communities from chemicals, microorganisms, and pesticides. For example, in FY 2003, EPA continued to make progress toward its goal of evaluating the potential risk of 20 chemicals to which children have a high likelihood of exposure.[3] EPA and other federal partner actions have also made significant progress toward the national goal of eliminating childhood lead poisoning by 2010. Specifically, the incidence of children 1 to 5 years of age with elevated blood lead levels has been reduced approximately by half in the last decade.[4] Newly released Centers for Disease Control data from 1999 and 2000 show the number of children younger than 6 years old with elevated blood lead levels has fallen to approximately 400,000, a decrease from an estimated 900,000 for the period 1991 through 1994. Through reviewing risks posed by older pesticides, EPA has eliminated or restricted many uses of organophosphate pesticides in and around the home, thus reducing exposure to children of chemicals that affect the functioning of the nervous system by 60 percent.[5]

Superfund: Protecting People from Environmental Contamination

Since its inception in 1980, EPA's Superfund Program has:

- Provided alternative drinking water supplies to nearly 613,000 people at NPL and non-NPL sites to protect them from contaminated ground and surface water.
- Treated or removed 951 million cubic yards of hazardous solid waste.
- Addressed (treated, contained, or disposed of) 379 billion gallons of hazardous liquid waste (including contaminated groundwater).
- Relocated more than 33,000 people at NPL and non-NPL sites in instances where contamination posed the most severe immediate threats.

In FY 2003, EPA also worked to build community capabilities to make sound environmental and human health decisions. Under its Brownfields Program, the Agency provided $118.6 million in grants to states, tribes, local governments, and stakeholders to assess, clean up, and redevelop brownfield properties. Since 1995, EPA has assessed a total of 4,300 brownfield properties. Property assessment and cleanup completed under the Brownfields Program are the first steps towards reuse and redevelopment. The cleanup and redevelopment of these properties enables the leveraging of $5.1 billion in public and private investments, as well as the leveraging of 25,000 jobs.[6]

EPA continues to make progress towards its goal of protecting and restoring 250,000 acres of estuarine habitat by 2008, with more than 118,000 acres protected and/or restored in FY 2003.[7] EPA has also made progress in protecting and restoring ecosystems in the Gulf of Mexico, the Great Lakes, and Chesapeake Bay. A cumulative total of 6,662 acres of coastal and marine habitat has been restored or protected in the Gulf of Mexico, exceeding the target for FY 2003 and contributing toward a 10-year goal of 20,000 acres. Levels of the most critical, persistent pollutants around the Great Lakes (including mercury, polychlorinated biphenyls (PCBs), dioxin, benzo(a)pyrene, and hexachlorobenzene) continue to decrease, as part of a downward trend in toxic substances in the Great Lakes over the last 15 years. By FY 2003, more than 89,500 acres of submerged aquatic vegetation (SAV) have been measured, which is an indicator of the health of the Chesapeake Bay. This represents a strong recovery of SAV in the middle bay, and significant progress towards the goal of 185,000 acres by 2010.[8]

During FY 2003, EPA made progress in addressing cross-border and global environmental issues as well. For example, the number of residents along the U.S. Mexico border who were protected against health risks, beach pollution, and damaged ecosystems as a result of improved water and wastewater sanitation systems has increased by 152,000 for a cumulative total of approximately 872,000 residents. Also, in cooperation with the New Independent States (NIS) of the former USSR, EPA and its partners have eliminated Russia's production of ozone-depleting substances and have helped prevent the deterioration of drinking water supplies for 700,000 people in the NIS.

Sound science must be the basis of standard-setting and guide EPA in identifying and addressing emerging issues, as well as updating and advancing its understanding of long-standing human health and environmental challenges. In FY 2003, EPA completed a draft report on the condition of the nation's estuaries that provides the first scientifically defensible baseline from which to measure trends in the health and status of these vital ecosystems.[9] In addition, in FY 2003 EPA reported on the performance and cost of control technologies to reduce emissions from coal-fired utility boilers, identified as one of the most significant contributors of mercury to the air. This information will support the development of regulations that will cost-effectively reduce human health and environmental risks from mercury.[10]

Compliance and Environmental Stewardship. In FY 2003, EPA prevented or eliminated the release of millions of pounds

of pollutants through programs that promote and monitor compliance with environmental laws, pollution prevention efforts, and environmental stewardship. EPA also finalized several enforcement actions that significantly advanced environmental and human health protection by reducing 633 million pounds of pollutants. Further, in FY 2003, 848 facilities disclosed and corrected violations of environmental regulations, due to EPA's compliance incentive policies.

In FY 2003, EPA's Green Chemistry Challenge Awards Program continued to make significant progress toward reducing the amount of toxic substances and waste released into the environment. From the program's creation in 1996 through the end of FY 2003, 326 million pounds and 7 million gallons of hazardous chemicals and solvents have been eliminated from the environment, including chlorofluorocarbons; volatile organic solvents; persistent, toxic, and bioaccumulative chemicals and solvents; and very corrosive, and toxic chemical substances. For example, in FY 2003 under the Agency's Hospitals for a Healthy Environment Program, 1,062 hospitals voluntarily eliminated mercury use and reduced hospital waste containing hazardous substances by 50 percent.

Based on the most recent available Toxics Release Inventory data, industry is releasing 42 percent less priority chemicals in hazardous waste than in 1991. There are 30 priority chemicals contained in hazardous waste that EPA's National Waste Minimization Partnership Program focuses on reducing or eliminating through waste minimization. They include 27 persistent, bioaccumulative, and toxic organics and cadmium, lead, and mercury.[11] The reduction represents substantial progress toward meeting EPA's longer-term goal of reducing priority chemical releases by 50 percent by FY 2008. Further, in FY 2003, EPA obtained final commitments from industry for the voluntary elimination of nearly 13,000 pounds of priority chemicals in wastes annually, through the Agency's Waste Minimization Partnership Program. EPA has also obtained commitments for an additional 151,000 pounds of priority chemicals and 114 grams of dioxin annually, pending final approval.

The President's Management Agenda

EPA recognizes that managing its organization and its resources effectively is a critical part of achieving long-term environmental results. In FY 2003, the Agency made significant progress in implementing the President's Management Agenda (PMA) reforms for Strategic Management of Human Capital, Competitive Sourcing, Expanding E-Government, Improved Financial Performance, and Budget and Performance Integration.[12]

EPA also continued to strengthen its oversight of Agency grants, which comprise slightly less than half of EPA's budget, to ensure achievement of the highest fiduciary standards. In FY 2003, the Agency developed its first long-term Grants Management Plan, which provides the framework for more effective and efficient management, including improving competition and linking grant work plans to the Agency's mission results of protecting human health and the environment. Of particular note, EPA increased the percentage of grants awarded to nonprofit recipients subject to the Agency's grants competition policy by threefold in FY 2003—75.4 percent, as compared to 24 percent during FY 2002.

Effectively managing its information resources is important not only to EPA, but also to the Agency's federal, state, local, and tribal partners. EPA made significant progress during FY 2003 toward achieving its goal of an information exchange network that will

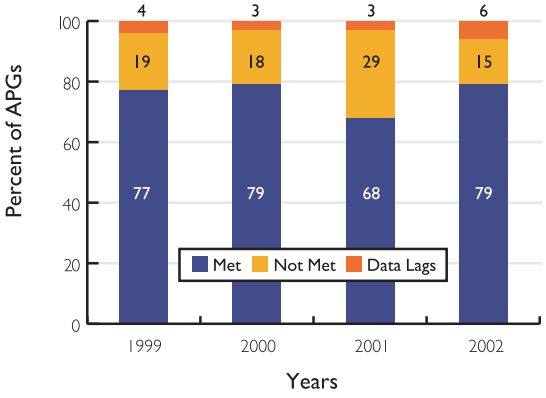
EPA Continues Steady Progress Toward PMA Goals

(As of September 30, 2003)

INITIATIVE	STATUS	PROGRESS	HIGHLIGHTS
Human Capital	Red	Green	—Made progress in aligning Agency human capital activities with Agency strategic planning and budgeting processes. —Completed draft of *Investing in Our People II, EPA's Strategy for Human Capital, 2003-2008.* —Included Human Capital Cross-Goal Strategy in *EPA's 2003 Strategic Plan.* —Pilot tested National Strategic Workforce Planning System. —Continued implementing EPA's comprehensive Workforce Development Strategy. —Developed draft human capital accountability plan.
Competitive Sourcing	Red	Green	—Created EPA Competitive Sourcing Council to set course for Agency effort. —Established Agency Competitive Sourcing Office to implement the initiative, reporting directly to the Agency's Competitive Sourcing Official. —Completed three competitions with other cost comparisons underway. —Received "green" progress scores for each quarter in FY 2003.
Expanded E-Government	Yellow	Green	—As federal agency lead, established the project management office and launched Regulations.gov, providing online access to federal rule-makings for public comment. —Active participant in 14 of 25 federal e-Gov projects. These 14 projects cover 3 of the 4 project categories. —Completed two significant components of EPA's Modernization Blueprint, which created the necessary infrastructure for the Agency's target architecture. —Secured and verified 94 percent of EPA's operational IT systems.
Improved Financial Performance	Green	Green	—Earned "green" status score, one of only three agencies to do so. —Achieved greater financial accountability by resolving all material weaknesses and maintained less than 1 percent erroneous payments rate. —Tripled grants awarded under competition policy from 24 percent in 2002 to 75.4 percent in 2003. —Developed new reporting tool to increase real-time access to financial and performance data to support day-to-day decision making.
Budget and Performance Integration	Yellow	Green	—Issued revised *2003 Strategic Plan* with five outcome-oriented goals focused on results and included social costs and benefits. —Developed new financial architecture to plan and track resources and performance data across the goals in the *2003 Strategic Plan,* and further integrate planning, budgeting, and accountability. —Received "green" progress scores for each quarter of FY 2003.

make environmental information held at all levels of government accessible to all users. Through the exchange network program, EPA, the states, and tribes are migrating from old, inaccessible information systems to digital, high-quality, integrated air, water, and waste information systems. These new systems have "network portals" through which data can be exchanged over the Internet, among EPA, states, tribes, the regulated community, and the public. As a result of the progress made on the network this year, 49 states are now reporting electronically through EPA's network portal, and the number of users (states, tribes, industry) of the portal increased by 113 percent (from 7,647 at the end of FY 2002 to 16,335 in FY 2003).

Figure 1: EPA's Updated Performance Results for Prior Years



During FY 2003 final performance results data became available for a number of APGs from prior years: nine for FY 2002, seven for FY 2001, seven for FY 2000, and four for FY 1999 APGs. The information above includes these additional results. Delays in reporting cycles and targets set beyond the fiscal year continue to affect four FY 2002 APGs, two FY 2001 APGs, two FY 2000 APGs, and three FY 1999 APGs.

Summary of Performance Data

In FY 2003, EPA met 73 percent of the annual performance goals (APGs) for which data are provided in this report. (EPA had committed to a total of 64 APGs in its *FY 2003 Annual Plan*; however, because data for 23 of these APGs will not be available until later in FY 2004 or beyond, they are not included in these tallies.) EPA also made significant progress toward the 11 APGs that were not achieved in FY 2003. Figure 1 provides an update of results for prior years; charts presenting EPA's performance results for each of the Agency's FY 2003 APGs are provided with each chapter in Section II.

Performance Issues and Concerns

Despite the best efforts of EPA and its partners, the Agency was not able to meet all planned targets for FY 2003. EPA did not meet 11 of the 41 FY 2003 APGs for which performance data are currently available. However, the Agency does not expect the shortfall in meeting these APGs to compromise progress toward achieving its long-range goals and strategic objectives. The Agency is considering the various causes of these shortfalls as it adjusts APGs and program strategies for FY 2004 and beyond. The performance data charts in Section II provide more complete information on missed targets. The remainder of this section describes several examples of performance goals EPA did not meet, and what the Agency is doing to meet the target in the future.

Under the Agency's Clean Air and Global Climate Change Goal, EPA had anticipated that seven areas would be redesignated to attainment of the ozone standard in FY 2003, but due to delays in the redesignation process for many areas, the Agency fell short of its target and achieved only five. Many areas are awaiting the 8-hour designation decisions to develop clean air plans to meet attainment. In FY 2004, EPA will have information to determine how many areas are monitoring clean air under the 1-hour ozone standard. EPA and states continue to work together to ensure progress in meeting the present ozone standards.

Under the Agency's Clean Water Goal, EPA missed its targets for issuing National Pollutant Discharge Elimination System (NPDES) permits for major point sources as well as pollutant loading reductions. NPDES permits help reduce or eliminate discharges into the nation's waters of inadequately treated wastewater from municipal and

industrial facilities and of pollutants from urban stormwater, combined sewer overflows, and concentrated animal feeding operations. In FY 2003, permits issued covered 84 percent of the targeted 90 percent for major point sources. While EPA and states met the goal for issuing minor permits, the continuing challenge for issuing major permits is due to competing priorities and the increasing complexity of permitting in a watershed context. This challenge is being addressed by the Permitting for Environmental Results initiative, designed to address the permit backlog and focus resources on attaining the most significant environmental results. In FY 2003, 2,200 million pounds of industrial discharges of pollutants to the nation's waters were eliminated, which failed to meet the target of 2,500 million pounds. The pollutant loadings reduction target was not met due to a delay in issuing a key permit in FY 2003, which will be issued in FY 2004.

In FY 2003, EPA anticipated that the Great Lakes ecosystem components would improve, including progress on fish contaminants, beach closures, air toxics, and trophic status. Although EPA and state partners have made progress in removing contaminants from the Great Lakes ecosystem, concentrations of certain contaminants in Lake Erie and Lake Superior fish are no longer decreasing. Other significant challenges to the Great Lakes that EPA and partners are attempting to address include an apparent increase of phosphorus levels in Lake Erie in FY 2003 of 18.3 Ug/l from a targeted 10 Ug/l and continuing entry of non-native species (e.g. zebra mussels). EPA is developing positive working relationships with the environmental community to establish effective programs, coordinate authorities and resources, report on progress, and hold forums for information exchange and collective decision making. This will ensure the protection of the Great Lakes and the achievement of the objectives of the Great Lakes Water Quality Agreement.

Improving Results

With the release of its revised *Strategic Plan* in FY 2003, the Agency accomplished an important and far-reaching milestone. The *Strategic Plan* contains five outcome-oriented strategic goals and supporting objectives and sub-objectives that focus on environmental results and reflect the work of the EPA regional offices, the states, and tribes. In FY 2003, the Agency also established a new financial architecture under the goal/objective framework of the new *Strategic Plan*.

In FY 2003, EPA improved its capacity for managing for results in other key ways as well. Agency program and regional offices worked with the Environmental Council of the States (ECOS) on strengthening the alignment between Agency and state planning, budgeting, and accountability processes. EPA also improved its ability to conduct and apply the results of program evaluations, track and measure performance, address environmental data issues, and anticipate future trends and issues.

Strengthening Partnerships

Many of the Agency's FY 2003 performance results discussed in Section II would not have been accomplished without strong participation by and support from the Agency's federal, state, and tribal partners. Over the past 3 decades, EPA has delegated or authorized primary responsibility to states for implementing many day-to-day program activities, such as issuing permits, conducting compliance and enforcement programs, and monitoring environmental conditions. As in previous years, EPA continued to collaborate closely with states and tribes and is committed to strengthening vital partnerships with such organizations as ECOS and the Tribal Caucus. For example, to increase the role states and tribes play in the Agency's annual planning and budgeting, ECOS and tribal representatives attended EPA's FY 2005 Annual Planning Meeting and presented their respective recommendations for the Agency's FY 2005 budget priorities. Similarly, during FY 2003, EPA regional offices consulted with states and tribes in developing the regional strategies that will contribute to achieving national objectives in the *2003 Strategic Plan*.

In addition to soliciting state input and participation in its annual planning processes, EPA worked closely with ECOS and other partner organizations in FY 2003 in finalizing the *2003 Strategic Plan*. EPA requested and carefully considered all of the comments it received at each stage of developing the plan, from discussion on the strategic goals and objectives to comments on the full-text draft. For example, in FY 2003, ECOS and other stakeholders participated in a meeting to discuss the goals and desired environmental results the Agency wants to achieve in the coming years. EPA's regional offices also conducted outreach with states and tribes to obtain their views on their unique issues and problems, which were considered by the Agency in drafting the final document. Additional input was sought in two formal rounds of review of the draft strategic plan, in December 2002 and March 2003.

In FY 2003, EPA and ECOS convened a joint workgroup to identify and implement improvements to EPA's planning, budgeting, and accountability processes. The workgroup has focused on improvements in two primary areas: better alignment of EPA's planning and budgeting process with state processes, and refinement of the Performance Partnership Agreement process. The input from this joint workgroup has already lead to improvements in EPA processes, and has significantly enhanced the Agency's FY 2005 planning and budgeting process by fostering increased state involvement.

During FY 2003, EPA also collaborated with its partners in many programmatic areas. Agency support ranged from providing important environmental information to key decision makers, to designing and implementing environmental programs. For example, in FY 2003, EPA, the National Oceanic and Atmospheric Administration, the U.S. Geological Survey, and the Delaware River Basin Commission developed partnerships with 24 coastal states to monitor the health of their coastal resources. In addition, in April 2003, EPA announced the creation of the "Clean School Bus USA Program"—a new national partnership with industry, communities, and local governments designed to minimize air pollution caused by school

buses. The program encourages local efforts to eliminate unnecessary school bus idling, install effective emission control systems on new buses, and replace the oldest school buses in a fleet. Also, in FY 2003, EPA worked with the City of Chicago and several locomotive companies to implement a voluntary program to reduce locomotive idling emissions. This project examined both the actual emission reductions (estimated at 90 percent) for pollutants such as nitrogen oxides, particulate matter, hydrocarbons, and carbon monoxide, as well as the market potential of the locomotive idle reduction technology. EPA will use this information to develop guidance on how states can take credit for these programs as part of their air quality planning process.

In addition, tribes continued to work with EPA to develop their own regulatory infrastructure and implement their own regulatory programs. In FY 2003, the St. Regis Mohawk Tribe submitted its Tribal Air Implementation Plan to the Agency for review so the tribe could establish a minor source permit program; the Nez Perce Tribe developed, and is implementing, a smoke management plan to address and manage grass burning on their reservation; and the Navajo Nation and the Southern Ute Tribe are both developing permitting programs under the Clean Air Act to enable them to regulate major sources of air pollution on their reservations.

Using Program Evaluation

EPA uses program evaluations and analyses to inform management decisions, enhance organizational learning, promote effective strategies, and improve environmental results. In FY 2003, the Agency continued to build its capacity to conduct program evaluations in anticipation of the use of the Administration's Program Assessment Rating Tool (PART) to evaluate, for FY 2004 and 2005, 20 key programs that account for almost half of the Agency's budget. The PART is an evaluation and accountability tool that the Office of Management and Budget (OMB) and federal agencies use to determine the strengths and weaknesses of federal programs, with a particular focus on program effectiveness.[13] In FY 2003, EPA used the results of these program assessments to set priorities and make funding decisions that were reflected in the Agency's FY 2005 budget request. EPA is continuing to prepare more focused and outcome-oriented performance measures, as identified in the PART assessments. For example, as a result of the PART assessments, the Agency has developed multi-year Performance Measurement Development Plans for air toxics risk reduction, wetlands, safe drinking water in tribal lands, surface water quality standards in the Mexico Border region, site cleanup, and land reuse.

To complement its outcome-based environmental performance measures, EPA also focused on developing efficiency measures for programs that have undergone PART assessments. In FY 2003, the Agency began developing efficiency measures to better assess how program results relate to the resources invested or time spent to achieve those results. For example, EPA developed an efficiency measure in its Enforcement Program to track the pounds of pollutants reduced against the time EPA staff spend in enforcement activities. Under the Pesticides Program, EPA will be tracking the average number of days that it takes to make registration decisions for conventional and new reduced-risk pesticide ingredients.

Other types of program evaluations were conducted as well. In FY 2003, EPA completed an evaluation of the partnership between EPA Region 8 and the National Park Service, which found that the preliminary goals of the partnership have been met. The report recommended that the partnership map its goals to performance measures and enlist broader institutional support for a scaled-up effort. In the human resources area, an evaluation found that the EPA Intern Program is effectively hiring a diverse group of high-potential employees. The evaluation provided findings and recommendations on all phases of

the program, including recruitment and hiring; activities during the 2-year development program (training, rotations, development); and retention after the program is complete.[14] Appendix A contains descriptions of program evaluations completed in FY 2003.

Improving Environmental Indicators, Performance Measurement, and Data Quality

In FY 2003, to help assess the current state of the environment and provide a baseline of environmental information for measuring future performance, EPA issued its first *Draft Report on the Environment*. The report describes what EPA does and does not know about the current state of the environment at the national level. The report also describes draft measures—or environmental indicators—that can be used to track the status of the environment and human health over time. This information and the Agency's continued efforts to refine it will be critical to EPA's strategic planning efforts. Information on key environmental indicators will inform priority setting and help EPA to focus its resources on the areas of greatest concern, manage its work more effectively to achieve measurable results, and report more clearly on progress in achieving environmental and human health goals to the American people.

Also in FY 2003, EPA continued to set annual performance goals and measures that are increasingly focused on environmental outcomes, instead of activity-based outputs. The Agency increased the percentage of annual performance goals that are classified as environmental or intermediate outcomes to approximately 39 percent of the total in the FY 2004 Annual Performance Plan (published in FY 2003)—up from 35 percent in the previous year's plan. Likewise, the percentage of annual performance measures classified as outcomes grew to approximately 51 percent, up from 40 percent the previous year.

Finally, during FY 2003 the Agency continued to improve its ability to ensure that the performance and financial data it collects and uses are reliable and complete. EPA worked to detect and correct errors in environmental data, standardize reporting, and exchange and integrate electronic data and data quality information among its federal, state, and local data-sharing partners.[15] For more information on data quality for assessments of FY 2003 performance measures, visit http://www.epa.gov/ocfo/finstatement/2003ar/2003ar.htm.

Considering Future Trends and Looking Ahead to FY 2004

EPA realizes that today's environmental issues are far more complex than those of 20 or 30 years ago, and that new areas of focus will challenge its ability to assess and measure its performance. The environmental problems the Agency faces today are difficult to define, and possible solutions are more difficult to identify than before. Population growth, and the resources that are consumed to sustain this growth, are altering the Earth in new

ways, and rapid scientific advances and technological developments pose new issues as well as important opportunities for human health and the environment.

In FY 2003, the Agency held its first competition to promote the development and use of futures analysis at EPA. Futures analysis represents an effort to think years ahead—to examine how to better accommodate emerging driving forces that are likely to transform how and what we do. The purpose of the competition is to build a knowledge base and skill level that will enable EPA and its partners to incorporate futures analysis into the Agency's annual, strategic, and long-term planning processes. This competition was initiated, in part, in response to numerous recommendations from the National Advisory Council for Environmental Policy and Technology, the EPA Scenario Project, and the Agency's senior-level Managing for Improved Results Steering Group, among others, to develop and improve environmental foresight capacity at EPA. Six Agency program offices and 7 regional offices, either by themselves or in teams, submitted 20 high-caliber proposals to compete for support in undertaking futures analysis projects. While the proposals addressed a wide range of ideas and issues that the Agency will face in the future, the two selected for support will be identifying environmental impacts of and regulatory issues regarding hydrogen fuel cells, and analyzing the potential impacts of different land-use forms on agriculture.

In looking ahead to FY 2004, the Agency expects to improve further the use of performance information in its planning and budgeting activities. In FY 2004, the Agency will operate under the five-goal *2003 Strategic Plan* and account for its resources at a finer level of detail, by programs and projects. The environmental indicator information contained in the *Draft Report on the Environment* will inform Agency planning and budgeting decisions, and PART will be used to assess the effectiveness of an additional 20 percent of the Agency's resources and programs in the development of EPA's FY 2006 budget. EPA will continue its work with its state partners on improving the alignment of state and EPA planning and budgeting processes, and EPA regions and states will finalize strategies in regional plans and use them as the basis for setting annual performance commitments to achieve Agency environmental goals and objectives. This streamlined approach is expected to reduce transaction costs for the EPA and states and to enhance performance.

Financial Analysis

EPA is proud to be one of only three federal agencies to earn a status score of "green" for Improved Financial Performance on the President's Management Agenda. Agency efforts to achieve greater financial accountability included resolving all previously reported material weaknesses, maintaining a less than 1 percent erroneous payments rate, and improving access to timely cost accounting information for program management. The financial statements provided in Section III, a snapshot of EPA's financial position at the end of FY 2003, are another important aspect of

Figure 2: EPA Financial Trends

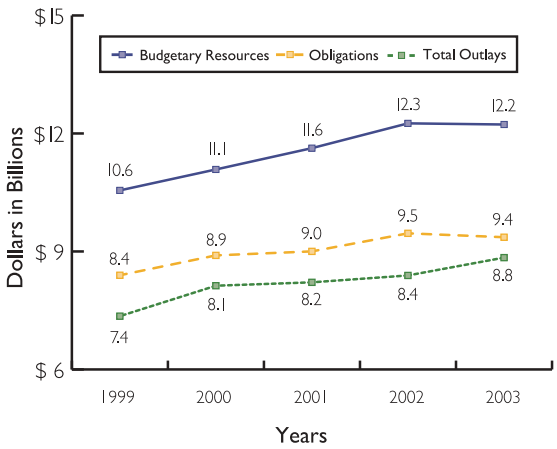


Figure 3: Government Net Outlays by Selected Agencies

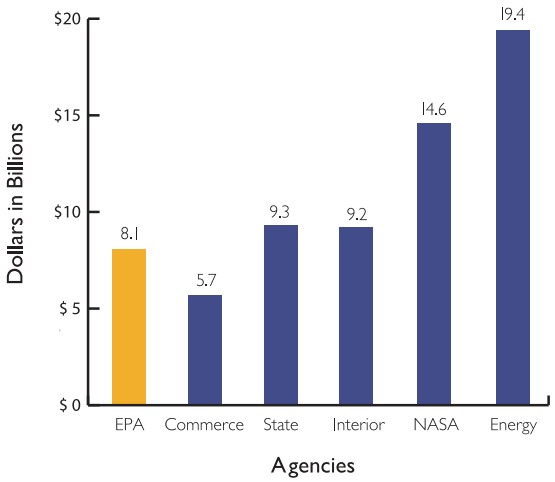


Figure 4. FY 2003 Obligations by Appropriation

(Dollars in Thousands)

Appropriation	Obligations
State & Tribal Assistance Grants	$3,902,081 (41.7%)
All Other	$3,909,840 (41.8%)
Superfund	$1,550,401 (16.5%)
TOTAL	**$9,362,322 (100.0%)**

Agency accountability. These financial statements are prepared in accordance with established federal accounting standards and are audited by EPA's Inspector General. In addition to the financial state ments, other views of how the Agency spends its resources are depicted in the following discussion.

EPA Resources: 1999 to 2003

Figure 2[16] depicts EPA's aggregate budgetary resources (congressional appropriations and some Agency collections), obligations (authorized commitment of funds), and total outlays (cash payments) for each of the last 5 fiscal years. The Statement of Budgetary Resources in Section III provides more detail on the makeup of the Agency's resources.

EPA FY 2003 Spending

As published in the Treasury Department's annual Statement of Receipts and Outlays, EPA's net outlays are relatively small compared to those of other federal agencies and the entire federal government. A comparison of EPA with selected cabinet-level departments is displayed in Figure 3.

FY 2003 obligations incurred in connection with EPA's activities are presented by appropriation in Figure 4. Figures 5 and 6 present EPA's costs (expenses for services rendered or activities performed) by funding source and by cost category.[17] The difference between the costs depicted in these graphs and the Statement of Net

Figure 5: Costs by Funding Source

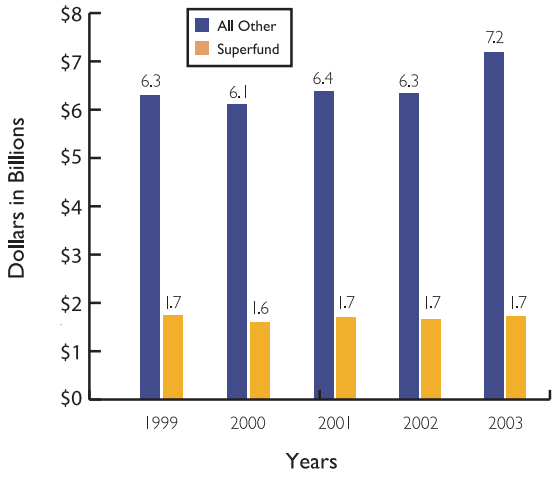


Figure 6: FY 2003 Cost Categories

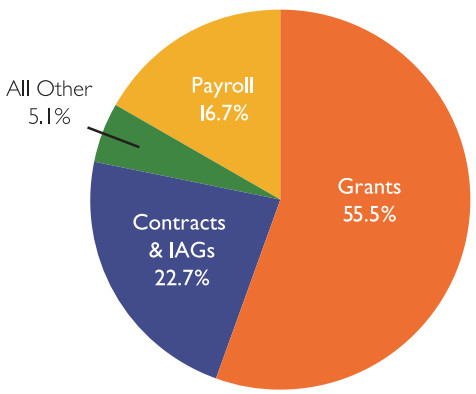
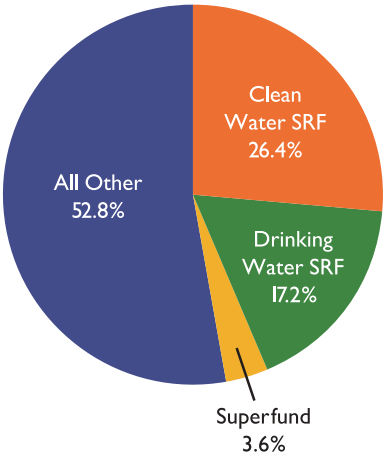


Figure 7: FY 2003 Major Grant Categories



Costs in Section III is that net costs reflect a reduction for any related offsetting income, such as Superfund cost recovery receipts.

Grant programs comprise more than 55 percent of EPA's costs. As depicted in Figure 7, nearly half of the Agency's grants are awarded under two state revolving funds that support the Agency's Clean and Safe Water Goal. Other major EPA environmental grant programs include assistance to states and tribes, consistent with EPA's authorizing statutes, and research grants to universities and nonprofit institutions.

Homeland Security Spending

EPA's actions regarding homeland security are described in Goal Chapters 2, 3 and 4 in Section II of this report. During FY 2003, the Agency obligated a total of $118 million[18] for homeland security activities—preparedness, response, mitigation, and recovery. Most of these resources have been devoted to **preparedness** ($100.1 million), which addresses many potential kinds of terrorism incidents. **Response** covers the immediate actions taken in response to terrorist attacks. **Mitigation** is action taken to reduce the risk and potential damage caused by future events, and **recovery** constitutes actions to rebuild and otherwise return to normal

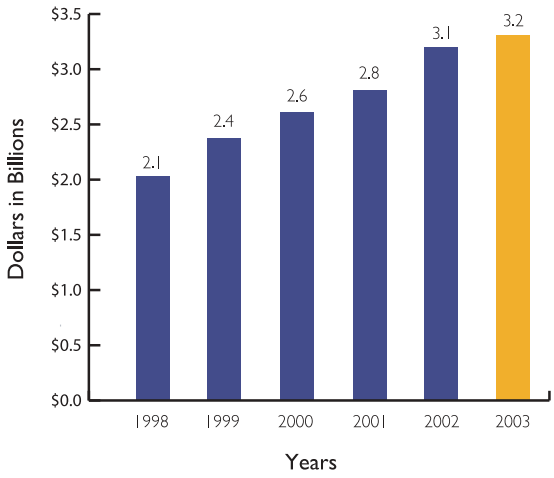
(refer to Sustained Progress in Addressing Management Issues available at http://www.epa.gov/ocfo/finstatement/2003ar/2003ar.htm for further discussion).

Superfund Cost Recovery

The Superfund Program was enacted under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) of 1980 to address public health and environmental threats from abandoned toxic waste dumps and releases of hazardous substances. CERCLA also established the Hazardous Substance Response Trust Fund, now known as the Hazardous Substance Superfund (Trust Fund), to finance the remediation of abandoned hazardous waste sites and emergency responses to chemical spills and other incidents.

The Trust Fund was largely funded by excise taxes charged on crude oil and petroleum and on the sale or use of certain chemicals, and a corporate environmental tax levied on corporations having a taxable annual income in excess of $2 million. The authority to tax expired on December 31, 1995. Consequently, Trust Fund revenues have declined over the years. Cost recoveries (see Figure 8), fines and penalties, interest, and transfers from the general fund currently

Figure 8: Cumulative Superfund Cost Recoveries, 1998-2003



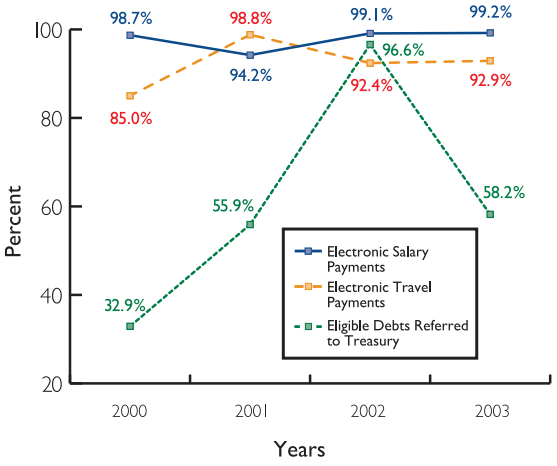
finance the Trust Fund. For FY 2003, Congress appropriated the Superfund Program $1.3 billion, of which $632 million came from the general fund.

Under CERCLA Section 122(b)(3), EPA may retain and use the proceeds received under settlement agreements to conduct response actions at Superfund sites. Funds received under these settlements are placed in interest-bearing, site-specific special accounts. Having the authority to combine both past and future cost settlement amounts has increased the amount of resources available in special accounts to fund EPA-lead site responses and to reimburse responsible parties for response work performed at sites pursuant to a settlement agreement with EPA. As of September 30, 2003, EPA had established 343 special accounts with $1.1 billion in receipts. These accounts earned an additional $175.6 million in interest.[19]

Financial Management Performance

Internally EPA continues to track finance office and Senior Resource Officials' (SROs') performance in key financial man agement areas. Semiannually, EPA measures finance office performance for processing payments, reconciling cash, and managing accounts receivable. Annually, the Agency measures the SROs' performance for management of budgets, contracts, Superfund billings, and property. In FY 2003, the finance offices and SROs generally met or exceeded their performance goals for these measures. Where targets were missed, corrective actions to improve performance were implemented. Additionally, EPA reports to OMB a required set of monthly and quarterly financial indicators that measure Agency cash reconciliation, accounts receivable, and vendor payment performance.

Figure 9: Financial Management Performance Measures



More than 99 percent of EPA's vendor payments were made on time; interest penalties totaled less than a ½ percent of all vendor disbursements. Figure 9 depicts EPA's performance in several financial management areas. Although only 58.2 percent of eligible debts were referred to Treasury, almost 99.7 percent of eligible dollars were referred.

EPA made significant progress in FY 2003 in improving its financial performance by reviewing internal controls to assess the potential for making erroneous payments under the State Revolving Funds managed by the Water Program. EPA completed its review of the State Revolving Funds in October 2002, and continued monitoring of the funds during FY 2003. The review identified a very low incidence rate of erroneous payments; specifically, less than ¼ percent for both funds. The review will be expanded in FY 2004 to assess the potential for significant erroneous payments in all Agency funds and to comply with the Improper Payments Act requirements.

Innovative Environmental Financing: The Advantage of Public-Private Partnerships

EPA leverages federal funds through several innovative environmental financing efforts that are mutually beneficial public-private partnerships, such as the Clean Water and Drinking Water State Revolving Funds, the Brownfields Program, and the Environmental Finance Program.

State Revolving Funds (SRFs). The Clean Water SRF (CWSRF) provides assistance for the implementation of wastewater and nonpoint-source pollution control and estuaries projects. The Drinking Water SRF (DWSRF) helps finance improvements to water systems to sustain their technical capacity to provide safe, affordable drinking water to consumers. The DWSRF also funds other state activities that support their drinking water programs *(refer to Section II, Goal 2, for more information on the SRFs)*.

EPA awards capitalization grants to states, which then make loans to municipalities and other entities for construction of infrastructure projects and implementation of other water quality activities. State matching funds and leveraged bond proceeds expand the capital available in the SRFs to address priority water quality and public health needs. Loan repayments and earnings ensure funding for these activities far into the future. The flexibility and revolving nature of the SRFs provide states with a powerful tool to apply needed funding toward their clean water and drinking water infrastructure needs. These top-priority needs are estimated in two EPA documents: the new *Clean Watersheds Needs Survey 2000 Report to Congress*[20] (reporting clean water needs at $182.2 billion, an increase of $26.6 billion from the last Survey) and the *Drinking Water Infrastructure Needs Survey Second Report to Congress*[21] (reporting $150.9 billion for drinking water).

As of early FY 2003, CWSRFs have converted nearly $21 billion in federal capitalization grants into more than $43.4 billion in assistance to municipalities and other entities for wastewater projects. In recent years, CWSRFs have directed approximately $4 billion in annual loan assistance to wastewater projects. On average, $115 million of these funds are used each year to manage polluted runoff, making the CWSRF an effective tool in addressing nonpoint source problems.[22]

The newer DWSRFs have converted $5 billion in federal capitalization grants into more than $8.1 billion available for drinking water assistance, of which $6.4 billion cumulative has been provided. Assistance totaling $1.3 billion was provided in FY 2003.[23] In addition to loans, $796 million DWSRF grants have been set aside by states to fund a variety of programs and activities that enhance water system management and protect sources of drinking water.

Brownfields Program. Since 1995, the Brownfields Program has been one of EPA's most successful public-private partnerships, leveraging public and private investments and creating jobs in cleanup, construction, and redevelopment. Brownfields are abandoned, idle, or underused industrial and commercial properties where redevelopment or expansion is complicated by real or perceived contamination. The Small Business Liability Relief and Brownfields Revitalization Act, implemented in FY 2003, further promotes brownfields redevelopment by providing financial assistance for assessment and cleanup, reforming Superfund liability, and enhancing state response programs. In addition to the activities that have been carried out in the past, the new legislation has expanded EPA's ability to address sites contaminated with petroleum and permits EPA to establish grants for brownfields cleanups.

Environmental Finance Program. The Environmental Finance Program assists the public and private sectors in finding creative approaches to funding environmental programs, projects, and activities. The program seeks to lower costs, increase investment, and build capacity by creating strong partnerships with state and local governments and the private sector. It leverages its resources through support of three distinct, but related, components that provide financial outreach services to these partners: the federally chartered Environmental Financial Advisory Board (EFAB), the university-based Environmental Finance Center Network (EFCN), and the online data base, Environmental Financing Information Network (EFIN).[24] A good example of how these components work together to leverage results is represented by the EFIN document *Paying for Sustainable Environmental Systems: A Guidebook of Financial Tools*. EFAB and the EFCN, working with EPA staff, developed this working tool, which helps environmental practitioners in the public and private sectors find the appropriate methods to pay for environmental protection efforts. The *Guidebook* destination on the EFIN website is accessed, on average, more than 6,000 times a month. In addition, hundreds of hard copies and more than 5,000 CD-ROM copies of the *Guidebook* have been provided in response to specific requests.

New Financial Management Initiatives

Cost Accounting. To assess how well EPA's financial systems and information meet the cost accounting requirements of program managers, the Agency reviewed the needs and capabilities in all offices. Based on the results of this effort, the Agency created additional coding structures within IFMS to capture and report cost information. These efforts contributed to the EPA achieving the President's Management Agenda criterion for integrated financial and performance management. EPA has shown that real-time use of financial and performance data improves environmental performance and supports the Agency's goals for achieving cleaner air, water, and land.

Financial information is integral to program management, as managers review costs and outcomes and seek ways to deliver better environmental results with greater efficiency. For example, EPA offices can now track information technology expenses, including related maintenance, development, and security costs. EPA's Office of Prevention, Pesticides and Toxic Substances uses a separate feature of IFMS to obtain detailed information about resource use in certain program areas (e.g., asbestos and mercury). In numerous briefings for OMB, EPA program managers have demonstrated how they access integrated financial and performance information, generate reports, analyze data, and make day-to-day decisions based on their findings. Currently the Agency is assessing the viability of establishing links between Agency-wide cost systems and programmatic systems for several program offices.

Brownfields Site Codes. Under the new Brownfields Law, grants awarded in FY 2003 and beyond have new funding limitations. Legal financial maximum limits now apply to funding used at properties with petroleum-only contamination, health monitoring funding, institutional controls monitoring and enforcement funding, insurance funding, and revolving loan fund subgrant funding. In FY 2003, EPA established new site codes in its financial systems to track each of these activities and better control funding.

Financial Replacement System (FinRS). FinRS will replace legacy systems that are inefficient by today's standards. It will improve integration among systems, as well as EPA's ability to perform core financial management functions, and provide additional functionality. EPA structured development of the FinRS suite of applications to deliver both short-term and long-term results.

With the FY 2004 implementation of the Payroll Time and Labor system, which fully supports the e-Payroll initiative, the Agency will realize substantial on-going cost savings. In addition, EPA will realize benefits from standardizing interfaces through use of an Enterprise Application Integration tool. The Agency will improve ad-hoc financial reporting by re-engineering the Financial Data Warehouse to include enhanced business activity monitoring capabilities (e.g., expanded integration with environmental indicators and administrative areas) and implementing BusinessObjects, a modern web-based reporting software. Finally, the cornerstone of the FinRS suite of applications will include the implementation of a new Joint Financial Management Improvement Program (JFMIP) certified core financial system that complies with recently established federal financial management system requirements.

FedTrip. This year EPA implemented the on-line reservation booking engine known as FedTrip as the first component of government-wide e-Travel services. When all components are fully implemented, e-Travel service will offer end-to-end travel services from planning to voucher reimbursement. This effort is part of the expansion of electronic government, a key area in the President's Management Agenda.

Sustained Progress in Addressing Management Issues

The Reports Consolidation Act of 2000[25] authorizes agencies to consolidate various management reports and submit them as part of their annual reports. This section provides a comprehensive discussion of EPA's progress in strengthening its management practices to achieve program results. It includes the strategies implemented and progress made in addressing management concerns identified under the Federal Managers Financial Integrity Act (FMFIA);[26] the Agency's efforts to carry out corrective actions on audits issued by EPA's Office of Inspector General (OIG); and the OIG's list of top management challenges facing the Agency.

Fiscal Year 2003 Annual Assurance Statement

I am pleased to give an unqualified statement of assurance that the Agency's programs and resources are protected from fraud, waste, and mismanagement, based on EPA's annual self-assessment of its internal management and financial control systems.

Marianne L. Horinko
Acting Administrator
October 23, 2003

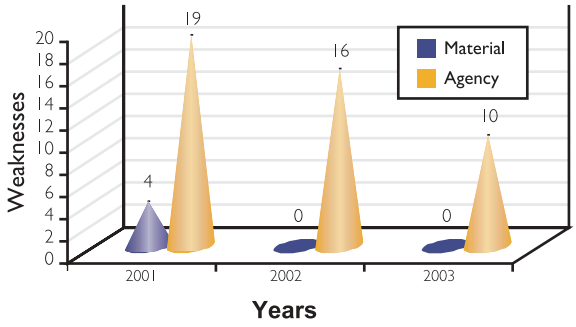
FY 2003 Integrity Act Report

In FY 2003, for the 2nd year, EPA reported no material weaknesses under FMFIA and resolved almost one third of its less severe, internal Agency weaknesses tracked by the Administrator (see Figure 10). To identify management issues and monitor progress in addressing them, Agency senior leaders use a system of internal and independent reviews and program evaluations, audits by the General Accounting Office (GAO) and EPA's OIG, and performance measurement. These efforts ensure that program activities are effectively carried out in accordance with applicable laws and sound management policy, and provide reasonable assurance that Agency resources are protected against fraud, waste, abuse, and mismanagement. In FY 2003, the Office of Management and Budget (OMB) recognized EPA's success in correcting material weaknesses, which contributed to the Agency achievement of a "green" status score in Improved Financial Performance, a key initiative of the President's Management Agenda.[27]

In FY 2003, EPA addressed a wide range of major management challenges, thereby strengthening its ability to achieve environmental and human health results. EPA's advancements in establishing and implementing effective management controls in environmental programs include:

- Using a comprehensive, integrated strategy to address risks from all sources of air toxics—major, area, mobile, and indoor sources[28]. EPA is on target to complete all of its 10-year Maximum Achievable Control Technology (MACT) standards by February 27, 2004.[29]
- Improving water quality by reducing the backlog of National Pollutant Discharge Elimination System (NPDES) permits[30] and increasing the focus on water permit prioritization for environmental results.

Figure 10: 3-Year Trend of Material and Agency-Level Weaknesses



- Enhancing EPA's program to prevent risks to human health and/or the environment from land application of sewage sludge by increasing public involvement, expanding biosolids related research, and actively enforcing safe land-application.[31]

The Agency also addressed a number of management challenges in administrative and management program areas, which provide the infrastructure supporting EPA's efforts to achieve results. Following are examples of FY 2003 accomplishments toward continued improvement in effective management of resources:

- EPA is aggressively implementing a comprehensive approach to managing its grants awards, which make slightly less than half of the Agency's budget.[32] To improve oversight for the award and administration of assistance agreements, EPA established a competition policy that in FY 2003 more than tripled the percentage of competitive awards to nonprofit organizations covered by the policy. The Agency also established a new post-award monitoring policy that will significantly increase oversight and strengthen accountability for grants management.

- EPA strengthened its data management and information technology systems. During FY 2003 the Agency developed new management controls to ensure consistent quality management practices throughout EPA; launched a modernized RCRAInfo system[33] that reduces burden and provides better data; and enhanced its comprehensive information technology investment review process, which is integrated with EPA planning and budgeting.
- EPA completed a draft of its new *Strategy for Human Capital, Investing in Our People II, 2003 through 2008*, and included a human capital cross-goal strategy in the Agency's *2003 Strategic Plan*. These efforts reflect progress in aligning workforce planning, recruitment, and staff development efforts with the Agency's environmental goals.

For more information, visit http://www.epa.gov/ocfo/finstatement/2003ar/2003ar.htm.

FY 2003 Management's Report on Audits

The Inspector General Act of 1978, as amended,[34] requires federal agencies to report to Congress on the status of their progress in carrying out audit recommendations. Audit management serves as a tool in assessing the Agency's ability to meet its strategic objectives. EPA continues to strengthen its audit management practices and has improved its ability to address and complete corrective actions in a timely manner.

In FY 2003, EPA was responsible for addressing OIG recommendations and tracking follow-up activities on 211 audits. The Agency achieved final action on 115 audits, which include Program Evaluation/Program Performance Audits, Assistance Agreements Audits, Contracts Audits, and Single Audits. Results achieved during FY 2003 for the Agency's audit management activities are summarized below:

Final Corrective Action Taken. EPA completed final corrective actions on 18 performance and 97 financial audits. Of the 97 financial audits, the OIG questioned costs of more than $90.7 million. After careful review, the OIG and the Agency agreed to disallow approximately $45.3 million of these questioned costs. In the performance audit arena, EPA management and the OIG did not identify funds that could be put to better use.

Final Corrective Action Not Taken. As of the end of FY 2003, 91 audits were without final action and have not been fully resolved (excluding those audits with management decisions under administrative appeal by the grantee).

Final Corrective Action Not Taken Beyond 1 Year. Of the 91 audits listed above, EPA officials had not completed final action on 26 audits within 1 year after the management decision. Because of the complexity of the issues, it often takes Agency management more than 1 year after management decisions are reached with the OIG to complete the agreed-upon corrective actions.

Audits Awaiting Decision on Appeal. EPA regulations allow grantees to appeal management decisions on financial assistance audits that seek monetary reimbursement from the recipient. In the case of an appeal, EPA must not take action to collect the account receivable until the Agency issues a decision on the appeal. In FY 2003, 61 audits were in administrative appeal.

For more information, visit http://www.epa.gov/ocfo/finstatement/2003ar/2003ar.htm.

Disallowed Costs & Funds Put to Better Use

October 1, 2002 - September 30, 2003

Category	Disallowed Costs (Financial Audits)		Better Use (Performance Audits)	
	Number	Value	Number	Value
A. Audits with management decisions but without final action at the beginning of FY 2003.	91	$149,435,120	25	$0
B. Audits for which management decisions were made during FY 2003.	97	$8,718,387	20	$0
(i) Management decisions with disallowed costs. (14)				
(ii) Management decisions with no disallowed costs. (83)				
C. Total audits pending final action during FY 2003. {A + B}	188	$158,153,507	45	$0
D. Final action taken during FY 2003:	97	$43,683,647	18	$0
(i) Recoveries				
a) Offsets		$8,806,994		
b) Collection		$1,963,726		
c) Value of Property		$0		
d) Other		$1,240,050		
(ii) Write-Offs.		$526,821		
(iii) Reinstated Through Grantee Appeal.		$31,146,056		
(iv) Value of recommendations completed.				$0
(v) Value of recommendations management decided should/could not be completed.				$0
E. Audit reports needing final action at the end of FY 2003. {C - D}	91	$114,469,860	27	$0

OIG Key Management Challenges Requiring Sustained Agency Attention

(Prepared by EPA's Office of the Inspector General)

EPA made progress in addressing the top 10 management challenges identified by the that OIG over the past 3 years. These efforts included issuing new standards and policies, providing training, and beginning the imple mentation of cross-cutting strategies in the Agency's *2003 Strategic Plan*. Nonetheless, EPA has not taken all actions necessary to address the challenges and ensure that the actions taken have been effective. If EPA does not take sufficient actions, the chal lenges will continue to impede the Agency's ability to meet its goals. For example, despite the Agency issuing new standards and policies to improve its management of assistance agreements, the OIG continues to find instances where EPA is not adequately overseeing these agreements. To address the issue, EPA needs to allocate sufficient resources, hold management and staff accountable for complying with policies, establish success measures, and monitor progress.

EPA's 10 management challenges identified by the OIG for FY 2001-FY 2003 are presented in the following table. Many of these issues are long-standing problems that existed for many years. The table shows the year in which the OIG noted the problems and describes the relationship to EPA's strategic goals and the President's Management Agenda. For more information, visit http://www.epa.gov/ocfo/finstatement/2003ar/2003ar.htm.

EPA's Top Management Challenges Reported by the Office of Inspector General	FY 2001[35]	FY 2002[36]	FY 2003[37]	Link to EPA's Strategic Goal	Link to President's Management Agenda
Linking Mission and Management: Developing more outcome-based targets.	●	●	●	Cross-Goal	Budget and Performance Integration
Information Resources Management and Data Quality: Improving the quality of data used.	●	●	●	Cross-Goal	Expanded E-Government
Human Capital Management: Implementing a strategy to develop staff.	●	●	●	Cross-Goal	Human Capital
EPA's Use of Assistance Agreements to Accomplish Its Mission: Improving management of the billions of dollars of grants awarded by EPA.	●	●	●	Cross-Goal	Improved Financial Performance

EPA's Top Management Challenges Reported by the Office of Inspector General	FY 2001[35]	FY 2002[36]	FY 2003[37]	Link to EPA's Strategic Goal	Link to President's Management Agenda
Protecting Critical Infrastructure from Non-Traditional Attacks: Protecting physical and cyber-based infrastructures, such as in water sector.	●	●	●	Cross-Goal	
Challenges in Addressing Air Toxics Program Phase 1 & Phase 2 Goals: Reducing air toxic emissions by improving approach and measures.		●	●	Goal 1	
EPA's Working Relationships with States: Improving structure for working with States.	●	●	●	Cross-Goal	
Information Security: Protecting information systems by preventing intrusion and abuse.	●	●	●	Cross-Goal	Expanded E-Government
Backlog of National Pollutant Discharge Elimination System Permits: Addressing permit renewal backlog for water discharges.	●	●	●	Goal 2	
Management of Biosolids: Improving sewage sludge management to sufficiently protect the public.		●	●	Goal 2	

Notes

1. EPA's *2003 Strategic Plan* available at http://www.epa.gov/ocfopage.
2. Information available at http://www.epa.gov/otaq/equip-hd.htm, http://www.epa.gov/otaq/diesel.htm, and http://www.epa.gov/otaq/nonroad.htm.
3. US EPA, Office of Pollution Prevention and Toxics, Voluntary Children's Chemicals Evaluation Program (VCCEP) Commitment Tracking System.
4. Centers for Disease Control, *National Center for Health Statistics, National Health and Nutrition Examination Survey: 1999-2002*. Available at http://www.cdc.gov/nchs/nhanes.htm.
5. Organophosphates are a class of widely used, older pesticides of concern for adverse effects.
6. Due to the grantee reporting cycle, the Brownfields Program can only report data on the first two quarters of FY 2003. Data are from the Brownfields Management System. More information at http://www.epa.gov/brownfields/.

7. The specific language for this strategic target reads as follows: "By 2008, working with National Estuary Program (NEP) partners, protect or restore an additional 250,000 acres of habitat within the study areas for the 28 estuaries that are part of the NEP."
8. Information on the Submerged Aquatic Vegetation measure available at http://www.chesapeakebay.net/status.
9. Information about EPA's National Coastal Assessment available at http://www.epa.gov/emap/nca/index.html.
10. *Performance and Cost of Mercury and Multipollutant Emission Control Technology Applications on Electric Utility Boilers* (EPA-600/R-03/110).
11. Additional information is available at http://www.epa.gov/epaoswer/hazwaste/minimize/chemlist.htm.
12. Additional information about the President's Management Agenda can be found in Chapter 6 and at http://www.whitehouse.gov/omb/budget/fy2002/mgmt.pdf.
13. EPA's PART evaluation information available at http://www.whitehouse.gov/omb/budget/fy2004/pma.html.
14. Appendix A contains a complete list of program evaluations conducted in FY 2003.
15. For complete information on the quality of the data contained in the Performance Data Charts in Section II — Performance Results, please see EPA's FY 2004 Final Annual Plan at the following website: http://www.epa.gov/ocfopage/budget/budget.htm. See also http://www.epa.gov/ocfo/finstatement/2003ar/2003ar.htm.
16. Section III, FY 2003 Statement of Budgetary Resources.
17. Section III, FY 2003 Statement of Net Costs.
18. US EPA, Office of the Chief Financial Officer, EPA's FY 2003 Budget Automation System.
19. US Department of the Treasury, FY 2003 Superfund Trust Fund Financial Statements.
20. US EPA Office of Water, *The Clean Watersheds Needs Survey 2000 Report to Congress*, EPA-832-R-03-001, Washington, D.C., September, 2003, http://www.epa.gov/owm/mtb/cwns/index.htm.
21. US EPA Office of Water, *Drinking Water Infrastructure Needs Survey Second Report to Congress*, EPA816-R-01-004, Washington, D.C., February, 2001, http://www.epa.gov/safewater/needs.html.
22. US EPA, Office of Water, Clean Water State Revolving Fund National Information Management System, http://www.epa.gov/r5water/cwsrf.
23. US EPA, Office of Ground Water and Drinking Water's Drinking Water National Information Management System, http://www.epa.gov/OGWDW/dwsrf/dwnims.html.
24. EFIN is available at http://www.epa.gov/efinpage.
25. Reports Consolidation Act of 2000, Public Law 106-531 (January 24, 2000).
26. Federal Managers Financial Integrity Act of 1982, Public Law 97-255 (September 8, 1982).
27. Executive Office of the President, Office of Management and Budget, *Federal Management: The President's Management Agenda* available at http://www.whitehouse.gov/omb/budintegration/pma_index.html.
28. US EPA, *National Ambient Air Quality Standards* available at http://www.epa.gov/air/criteria.html.
29. Ibid.
30. US EPA, Office of Water, *National Pollutant Discharge Elimination System (NPDES)*, Backlog Reduction available at http://cfpub.epa.gov/npdes/permitissuance/backlog.cfm.
31. *Federal Register*, April 9, 2003, at 68 FR 17379—17395.
32. US EPA, EPA Grants Information and Control System (GICS) database.
33. Available at http://www.epa.gov/epaoswer/hazwaste/data/index.htm#rcra-info.
34. Inspector General Act of 1978, as amended, Public Law 95-452, October 12, 1978.
35. OIG Memorandum of December 17, 2001 to EPA Administrator, "EPA's Key Management Challenges".
36. OIG Memorandum of September 6, 2002 to EPA Administrator, "EPA's Key Management Challenges".
37. OIG Memorandum of May 22, 2003 to EPA Administrator, "EPA's Key Management Challenges".